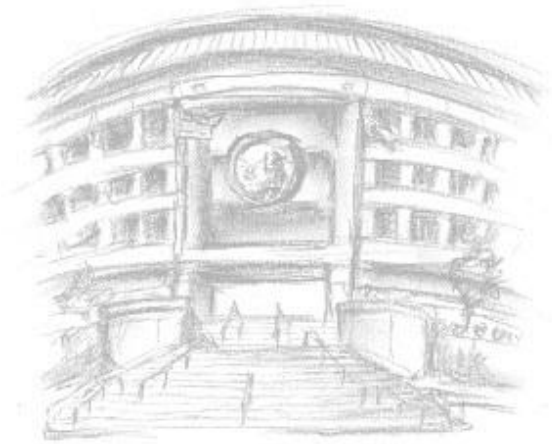




CPUC Water Regulation Overview



For Division of Drinking Water SWRCB

Rami Kahlon, Director
Division of Water and Audits
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Division of Water and Audits



Rami Kahlon. PE
Director, Division of Water and Audits
California Public Utilities Commission

Rami has served as the Director of the Division of Water and Audits at the California Public Utilities Commission since 2007. In this role, he is responsible for the regulatory oversight of 127 privately owned water and sewer utilities. In addition, Rami leads the Commission's Audit arm which provides auditing services to the other industry divisions. Rami is a seasoned utility regulator and has worked at the Commission for 20 years in various capacities. Rami holds a Bachelor of Science in electrical engineering from the University of California at Davis and a Master of Management from the Kellogg School at Northwestern University, and he is a licensed Professional Electrical Engineer.





Water Utility Regulation in Context

Californians spend more than \$50 billion annually for services from industries regulated by the CPUC.

- **Electricity:** 11.5 million customers; 32,698 miles of transmission lines; 239,112 miles of distribution lines; more than 200 electric generation units; \$23.7 billion in revenue
- **Natural Gas:** 10.7 million customers; 103,000 miles of pipelines; \$7.7 billion in revenue
- **Telecommunications:** 82.7 million numbers assigned, with 34 million to wireless devices; 2.2 million VoIP lines; 2.1 million DSL lines; 10.5 million residential broadband connections; 1,030 certified carriers; \$23.9 billion in revenue
- **Water:** 114 water and 13 sewer utilities serving about 16 percent of California's population; \$1.4 billion in revenue
- **Railroad Safety:** 10,385 miles of main/branch tracks; 16,016 pieces of railroad equipment; several thousand HAZMAT facilities; 10,000 public railroad crossings; 3,250 private railroad crossings; 12 rail transit agencies.





CPUC Overview

- Five member Commission

- Appointed by the Governor for six year terms
- Vote on matters every two weeks
 - Applications; Decisions address more complicated utility applications
 - Advice Letters; Resolutions address simpler, more administrative, advice letter issues

- Administrative Law Judge Division – Prepare Decisions

- Industry Divisions – Prepare Resolutions

- Energy
- Water – Division of Water and Audits
- Communications
- Safety

- Office of Ratepayer Advocates

- Formal role as a party in applications
- May protest advice letters addressed by resolution





The Water Industry



The CPUC is responsible for ensuring that investor-owned water utilities deliver clean, safe, and reliable water service at reasonable rates.





Water Utility Overview

- 114 Water Utilities

- 9 Class A water utilities (over 10,000 connections)
- 5 Class B water utilities (over 2,000 connections)
- 24 Class C water utilities (over 500 connections)
- 76 Class D water utilities (500 connections or less)

- 13 Sewer utilities, less than 1,000 connections

- Serving 6 million Californians, or about 16% of the state's population

- \$1.4 Billion in total revenue

- ORA is a party in Class A water utility applications

- ORA monitors and protests Class A advice letters





Ratemaking

- Smaller utilities (< 10,000 service connections)
 - DWA processes all general rate increase requests
- Thorough System Evaluation
 - Service quality – outages, pressure, complaints
 - Leaks
 - Water treatment
 - Water quality standards
 - Division of Drinking Water - SWRCB
- Larger utilities
 - Water Quality Expert assigned in GRC proceeding
 - Report / Testimony





How we do Ratemaking

- **High, fixed cost business**
 - 70% fixed costs
 - No water use, fixed costs remain
- **Cost of Service**
 - Recover all your expenses
 - Plus earn a return on Plant in Service
 - Original Cost less depreciation
 - \$100 for a pipe, 50 year depreciation





Water Rates

- Service Charge
 - \$30 or so per month
- Quantity Charge
 - Per ccf - hundred cubic feet
 - 748 gallons per hundred cubic feet
 - Average household uses about 10 – 15 ccf per month
 - Tiers
 - the more you use, the more you pay
- Service Charge + Quantity Charge = Bill
 - Plus the CPUC surcharge of 1.5%





Memorandum of Understanding

- Long standing MOU between CDPH and CPUC Staff
- Objectives
 - Safe, Reliable Water supplies in accordance with Safe Drinking Water Act (SDWA)
- Responsibilities
 - CDPH
 - CPUC
 - Joint responsibilities
- Coordination





Memorandum of Understanding

- Responsibilities
 - DDW: Mailing to the CPUC...Sanitary Survey, Inspection Report, or letter concerning water companies.”
 - DDW: Participating in CPUC meetings and evidentiary hearings.
 - CPUC: Evaluating whether water companies comply with water quality and fire flow requirements.
 - CPUC: Analyzing financial impacts of system improvements.
- Joint Responsibilities
 - Keep each other informed of its activities.
 - Assistance in implementing enforcement.
 - Share information.





Memorandum of Understanding

- Activities
- General Rate Case
 - CPUC outreach to DDW engineers
- Quarterly meetings
 - Hosted in Richmond by Cindy Forbes
 - Detailed Agendas
 - Specific discussions
- Small utility receivership
 - DDW
 - CPUC
 - Lengthy, more complicated process





Hartwell Decision

- 2002 California Supreme Court Decision
 - *Hartwell Corporation et al v. the Superior Court of Ventura County*
- Findings
 - PU Code 1759 precludes superior court intervention in CPUC official duties.
 - Legislature vested the CPUC with ...powers to ensure the health, safety, and availability of the public's drinking water.
 - CPUC has the authority to enforce water quality standards.
 - CPUC continues to exercise its jurisdiction to regulate drinking water quality.





General Order No. 103-A

- Purpose

- Establish minimum standards to be followed in the design, construction, location, maintenance and operation of the facilities of water and wastewater utilities.
- Grandfather clause

- Water Quality

- The utility shall comply with applicable state and federal laws pertaining to water quality

- Fire Flow

- The standards prescribed by the local fire protection agency...shall govern.
- Fire Hydrants

- Pressure

- “not less than 40 psi nor more than 125 psi...”





General Order No. 96-B

- Purpose
 - Rules that govern advice letter and information only filings
- Industry Rules
 - Energy
 - Water
 - Telecommunications
- Types of Advice Letters
 - Tier 1 – Routine, effective upon filing
 - Compliance with Commission orders
 - Tier 2 – Require industry division approval before becoming effective
 - Voluntary conservation
 - Service areas
 - Tier 3 – Require Commission disposition through a Resolution
 - Change in rates, withdrawal of service





DWA Roles

- Advisory Support to CPUC and Administrative Law Judge Division
- Policy Formulation
 - Initiate rulemakings (OIR), and investigations (OII)
 - Uniform Rate rulemaking
 - Recycled Water rulemaking
 - Water / Energy Nexus rulemaking
 - Water Rates rulemaking
 - Water Action Plan 2005 and 2010 Update
- Represent CPUC on statewide water policy panels, forums
- Check compliance, enforce rules
- Sponsor legislation
 - In 2013 DWA sponsored legislation to facilitate utility ownership transfers to a receiver for utilities that are unable or unwilling to adequately serve its customers or have been actually or effectively abandoned by its owners.





Enforcement

DWA enforces Commission Orders for water and sewer utilities

- Golden State Water Company
 - \$1M fine
 - \$9.5M customer refund
 - \$2.5M reduction to rate base
- Petitions for Receivership
 - Golden Hills Sanitation Company
 - Yermo Water Company
 - Live Oak Springs Water Company





Water Action Plan

- First adopted in 2005, updated in 2010
- Principles
 - Safe, high quality water
 - Highly reliable water supplies
 - Efficient use of water
 - Reasonable rates and viable utilities
- Objectives
 - Maintain highest standards of water quality
 - Promote Water infrastructure investment
 - Strengthen water conservation programs
 - Streamline decision making
 - Rates that balance investment, conservation, and affordability
 - Assist low-income ratepayers





Water Action Plan

- Since WAP was first adopted, the CPUC has;
 - Decoupled sales from revenues
 - Instituted tiered rate structures
 - Updated water conservation rules and water service standards
 - Water utility conservation budgets have increased multiple times.
- Three year mandated schedule for Class A general rate case filings
- Low-income ratepayer assistance programs are in place across all Class A water utilities

